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localinsights

An economic and labor market analysis of the Southeast Utah Area

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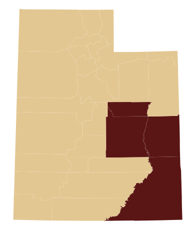
in this issue:

The Labor Force
in Utah's Castle Country and Southeast Region



BY ERIC MARTINSON, ECONOMIST

With what is likely the majority of Americans eying the movements in the economy during what has been characterized as a sluggish recovery, scrupulous attention is being paid to the unemployment rate, released monthly both nationally and locally. This measure of unemployment is one of the most important metrics of economic health within a given population. The process behind generating an unemployment statistic involves an important component of national and local unemployment rates: labor force participation. Many equate the actual level of employment as the main or only determinant of unemployment statistics. However, the fact that most unemployment rates across the nation remain higher than pre-recession rates has us fretting about the state of the economy and how long it will take to return to a "desirable" locus. The level of employment is always held relative to changes in the actual size of the labor force over time; the supply of labor (the labor force) drives the unemployment rate up or down. In fact, it seems the size of the labor force is often an afterthought in peoples' minds when trying to make relative sense of the unemployment rate. A declining unemployment rate will not always mean that more jobs are being added to the economy. Conversely, people returning to the labor force (or entering it for the first time) may, in theory, even temporarily drive unemployment rates up.

For example, Figure 1 illustrates how movements in the level of employment as well as movements in the level of the overall labor force affect the rate of unemployment. The level of national employment has moved more or less in sync with the total supply of labor until the Great Recession hit in late 2007. The shaded area between these curves represents the number of the unemployed. Not only did a severe decrease in employment drive unemployment up, but what is clearly visible is that the supply of labor stopped increasing and even dropped in 2008 and 2009 and has yet to return to its 1991–2007 average growth rate.

Reconstructing this time series for the Castle Country and Southeast regions proves very difficult. Suffice it to say, dissecting the labor force would prove the same point: fluctuations in the labor force can cause the unemployment rate to change even when holding the number of unemployed constant. Therefore, a change in the unemployment rate may not necessarily indicate a change in the overall health of the economy. This point serves as the basis for an interesting portrait of Castle Country and Southeast's labor force.

The Labor Force in Utah's Castle Country and Southeast Region (continued)

Labor Force Relative to Civilian Population

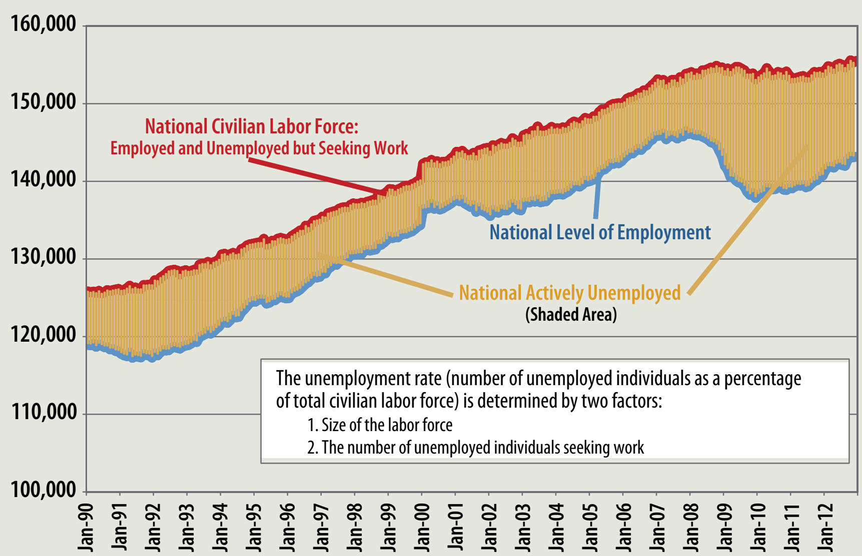
The labor force participation rate provides even more context for the characteristics of the labor supply. For example, as the net population increases within a given locality, it stands to reason that over this time the labor force will also grow. Because the size of the labor force directly depends on population growth and other demographic indicators, holding the supply of labor relative to the entire population of those 16 years old and older provides important perspective when peering into the structure and trends of national, regional or local labor forces.

The national labor force participation rate (defined as the percentage of those 16 years and older who are working or actively[1] looking for work, who are neither in the military nor institutionalized) by the civilian population was increasing overall from around 1964 until the turn of the millennium. Around 2000, this labor force participation rate reversed its decades-long trend. In fact, the current rate is 63.6, a level not seen since 1981. Is this the case at a regional and local level, particularly within the Castle Country and Southeast regions of Utah? Census data and Local Area Unemployment Statistics (LAUS) reveal some interesting phenomena.

Figure 2 shows annual labor force participation rates for the country, the state and for Castle Country and the Southeast. The trends at the national and state level show a steady decline over the last two decades. Many economists consider the steadily declining national labor force participation rates to be structural shifts in the composition of the labor force as

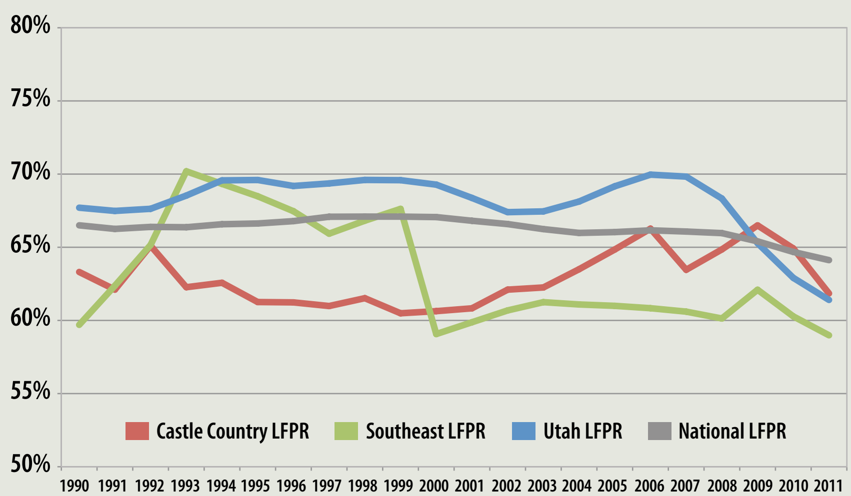
[1] Actively: having sought work within the previous four weeks

Figure 1: Components of the National Labor Force, 1990–2012
(in thousands)



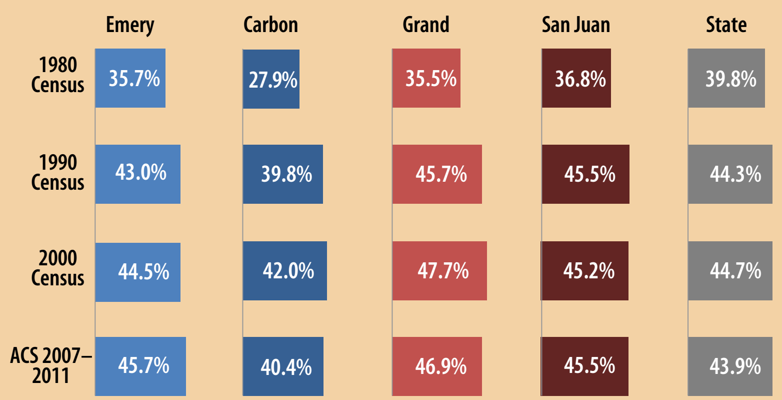
Source: Local Area Unemployment Statistics; National Cancer Institute

Figure 2: Annual Labor Force Participation Rates



Source: Local Area Unemployment Statistics; National Cancer Institute

Figure 3: Females as a Percentage of the Labor Force



Source: U.S. Census Bureau

well as shifts in the attitudes and values of society. In the state of Utah, the general trend of the labor force participation rate has typically followed that of the national rate (although the last bubble in Utah's trend appears to be cyclical). The declining trend in Utah's labor force participation may also be structural.

Whereas the state and national participation rates show a steady decline over the past two decades, the labor force participation rate for Castle Country was generally decreasing throughout the nineties and increasing for most of the last decade. The trend started once again to decrease toward the end of the last decade. This occurs primarily because the Great Recession that hit the area by late 2008, though the effects are not seen until 2009–2010, and also because of a decrease in the production of coal in Castle Country. Employment in the coal industry, the main economy of Carbon and Emery counties, has been dropping for the last couple of years. As older workers associated with these industries have been laid off, difficulties in finding jobs may point to an overall decreasing participation of county residents within the Castle Country workforce. This cyclical affect could well present itself as a structural trend over time.

In the Southeast, participation in the labor force appears to have been higher in the nineties and lower over the last decade. Dissecting the participation rate by county reveals a relatively higher labor force participation rate in Grand County than San Juan County. Nevertheless, the rate appears to be decreasing in both counties over the last decade, a trend that matches state and national participation rates. What is the cause for these structural decreases in labor force participation?

Changes in the Dynamics of the Labor Force

Comparing the workforce with the entire civilian population 16 years and older, then, gives us an idea behind the trends and cycles over time of the entire labor supply. But what exactly is driving these trends? In general across the country and throughout Utah the landscape of the labor force has gone through some significant changes. The United States saw more and more women throughout the seventies and eighties entering the labor force. This phenomenon occurred in virtually every corner of the country as the culture and values of America became more progressive. This was certainly the case in Castle Country and Southeast Utah.

According to the 1980 U.S. Census, 35.7 percent of Carbon County's labor force was female; in Emery County, 27.9 percent were female; in Grand County 35.5 percent were female; and in San Juan County, 36.8 percent were female (Figure 3). Compare these to a 39.8 percent female labor force for the state of Utah in 1980. It stands to reason that rural areas were slower to experience the entry of more women to the workforce. However, by 2011, greater proportions of women entered the labor force in all of these counties: Carbon County's labor force was 45.7 percent female (an increase of 10.0 percentage points), Emery County 40.4 percent (an increase of 12.4 percentage points), Grand County 46.9 percent (an increase of 11.5 percentage points) and San Juan's female labor force grew to 45.5 percent (an increase of 8.7 percentage points). Women in Utah's labor force grew 5.0 percentage points between 1980 and 2000 to a 43.9 percent female share.

Another important dynamic to consider when painting the labor force picture is age. On a general level, the past decade has seen a shift in participation rates among the youngest workers (16–24-year-olds) as well as the oldest (65–69-year-olds). This general trend across the nation shows that the labor force participation rates among 16–24-year-olds are declining. Conversely, participation rates among those hitting retirement ages are increasing, despite (and in many cases because of) the recent recession. To what extent may this be the case for the Castle Country and Southeast regions?

The 16–24-year-old age group shows a decrease in labor force participation in Carbon County. According to the 2000 Census, 71 percent among these ages were in the civilian labor force. In the most recent ACS reprt, that participation rate dropped to 64 percent, a decline of 7 percentage points. In Emery, however, participation among

The Labor Force in Utah's Castle Country and Southeast Region (continued)

16–24-year-olds actually increased by 7 percentage points, from 61 percent in 2000 to 68 percent in the current ACS report. Grand County's 16–24-year-old age group remained virtually unchanged at 75 percent in 2011 and the same age group in San Juan fell by 5 percentage points to 38 percent by 2011, seen in Figures 4 and 5.

On the other end of the age spectrum, retirement-age participants in the labor force increased by a factor of two in Carbon and Grand. While the change in Grand County's retirement-age participants was almost negligible, as it was with the youngest age group, it is reasonable that this is partly due to Moab's uniquely tourist-dependent economy, which has grown over the past two to three decades. The leisure and hospitality industry employs people of all ages and a relatively higher mix of females, leading to a comparably higher female participation rate in Grand County.

Finally, there may be a correlation between the reluctance of the baby-boomer workforce participants to leave the labor pool and the lower participation rates among younger workers in Carbon and San Juan Counties. The slight increase in labor force participation among Emery County's older residents from 2000 to 2011 was marginal; this did not appear to have any effect on its youngest workers, as participation here grew by 7 percent.

The story of the Castle Country and Southeast labor force tells of a higher female proportion in recent decades. In some cases, it also tells of an older age group currently less willing to leave the workforce compared to before. These trends (along with other variables not discussed in this analysis) seem to spell decreased labor force participation among young workers in at least three of the five counties of the Castle Country and Southeast regions of Utah.

Figure 4: Castle Country Labor Force Participation by Age

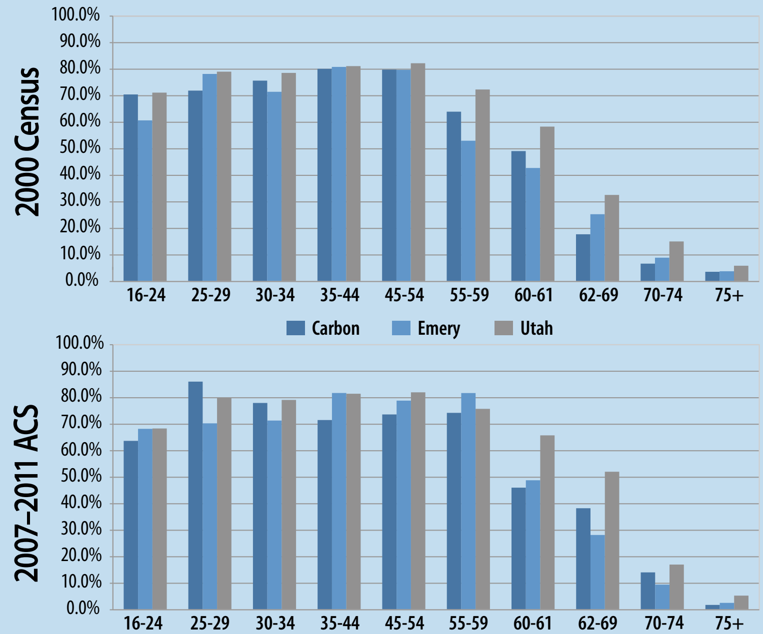
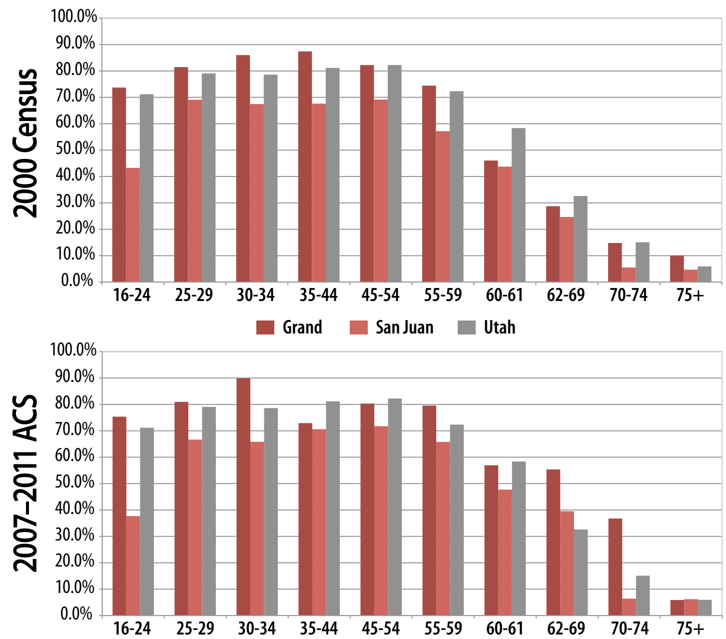


Figure 5: Southeast Labor Force Participation by Age



Source: U.S. Census Bureau

Economic Analysis

BY ERIC MARTINSON, ECONOMIST

Castle Country

The overall economic picture in Castle Country during the third quarter of 2012 shows continued job losses. The third quarter of 2012 marks the sixth consecutive quarter of year-over-year decreases in total nonfarm employment and the seventh consecutive quarter of year-over-year drop in employment for Emery County.

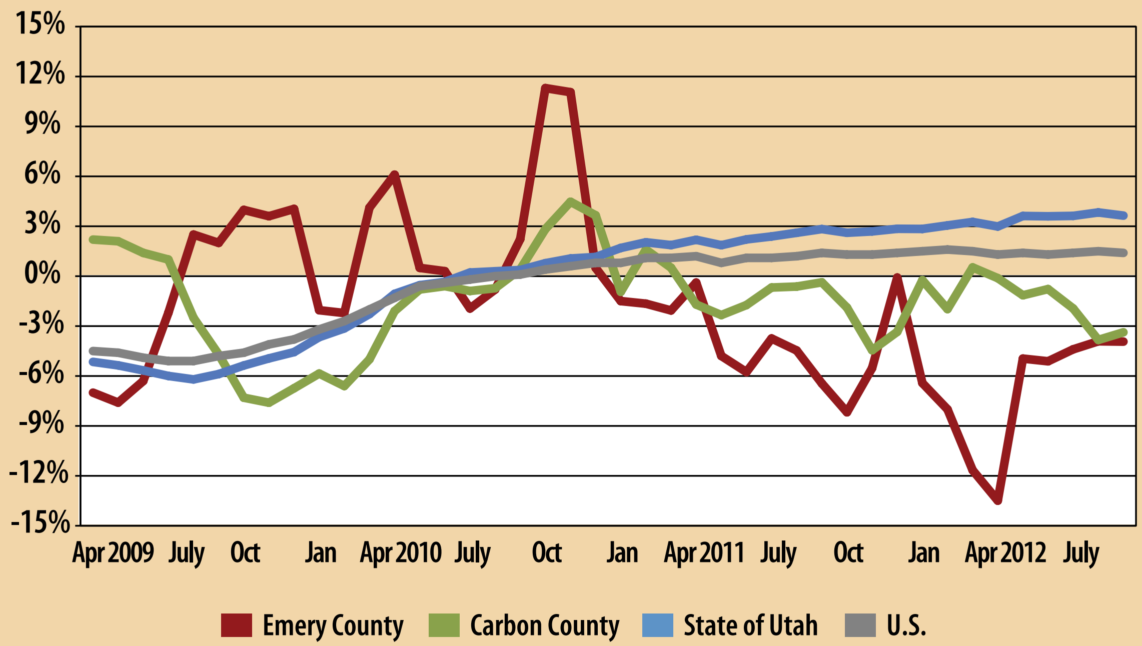
The unemployment rates for Carbon and Emery counties continue their upward trend. Carbon's unemployment rate currently sits at 7.4 and Emery County's at 7.8 percent.

Carbon County

In Carbon County, year-over-year total nonfarm employment was down 3.1 percent, or 289 jobs. The services sector gained a net of just 2 jobs overall in the county, but this gain was overwhelmed by losses in the goods producing sector, namely mining, construction and manufacturing, overall taking away 291 jobs. The mining industry continued to take some employment hits during the second quarter, a year-over-year drop of 19.7 percent jobs compared to the third quarter 2011. Construction jobs fell by 21.1 percent and manufacturing by 4.5 percent compared to 12 months previous.

Within the services sector, only two industries were able to boast of a year-over increase in quarterly employment. The professional and business services industry added 9.1 percent, or 62 jobs, to its payrolls year-over-year. Health care and social services also managed to add 53 jobs to its payrolls (a 5.3 year-over-year percent increase) in an otherwise struggling local labor market. While federal government employment within Carbon County fell 1.7 percent, state and local government added some jobs, representing a 2.7 percent and 1.7 percent increase, respectively.

Figure 6: Year-Over Change in Nonfarm Jobs, Castle Country



Source: Department of Workforce Services; U.S. Bureau of Labor Statistics

Economic Analysis (continued)

Most recent permitted dwelling units and total permit-authorized construction values were unchanged or negative, and quarterly taxable sales have been trending down, indicating a stalled housing economy and reluctance of household consumers to part with their money.

Emery County

Carbon County's sister economy, Emery County, shares the same troubled outlook. Year-over-year total employment for the county was down 4.1 percent (295 jobs lost in the second quarter 2012 compared to last year's second quarter). Manufacturing added just three jobs, which were outweighed by a combined loss of 122 jobs within mining and construction, compared with third quarter 2011 numbers.

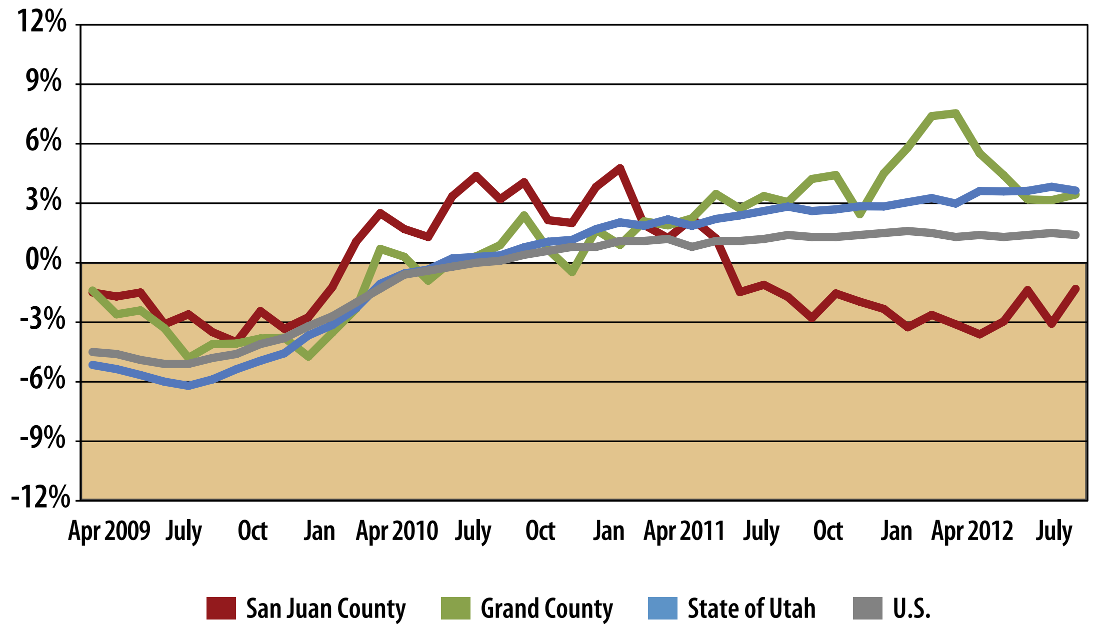
Wholesale trade, retail trade, financial activities and professional activities were the industries that managed to add jobs compared to third quarter 2011. At the aggregate level, however, the services sector still dropped two jobs, or .08 percent compared year-over-year.

While the employment situation in Emery County is dismal, the most recent county-level construction data indicates Emery County has gained 11 percent in permitted dwelling units compared on a year-over-year basis, and permit-authorized construction values were up 26 percent. Furthermore, third quarter 2012 data shows that there was actually a 12-percent year-over increase in quarterly taxable sales.

Southeast

The seasonally adjusted unemployment rates for Grand and San Juan Counties have been on the rise. The unemployment rate for Grand County is currently at 8.7, and San Juan County's rate is 9.8 percent, rates higher than both state and national averages. However, the better indicator for the employment snapshot in the Southeast region is total nonfarm employment. Grand County continues its positive year with a year-over third quarter increase in employment of 183 jobs, a 3.6 percent increase. San Juan, on the other hand, dropped employment by 2.6 percent.

Figure 7: Year-Over Change in Nonfarm Jobs, Southeast



Source: Department of Workforce Services; U.S. Bureau of Labor Statistics

Grand County

Compared to the third quarter of 2011, Grand County had a strong third quarter in 2012, reinforcing positive back-to-back overall nonfarm employment growth in both the first and second quarters. Second quarter year-over employment change showed an increase of 5.8 percent, which was on the heels of a first quarter employment year-over growth of 6 percent. One hundred and sixty-three of these employment gains came from the services sector. The second quarter brought 129 more jobs to leisure and hospitality compared to last year's third quarter. Retail added 40 jobs in September and the public administration sector, too, has been adding jobs throughout the third quarter. It picked up 43 more jobs year-over. The professional and business services industry dropped the most third quarter jobs, 43 to be exact. This reflects a 17.8 percent drop year-over-year.

Grand County is still on a strong track regarding construction. Like many counties in the state and throughout the country, construction jobs remain depressed. However, from January to November of 2012, the most current data available, Grand County has increased their permitted dwelling units by 55 percent compared to the same period last year. Also, total permit-authorized construction values are 82 percent higher. Finally, Grand County is continuing to sustain its year-over growth in gross taxable sales. During the third quarter of 2012, the county had increased sales on a year-over basis by 6 percent, the tenth consecutive quarter of positive year-over-year taxable sales growth for the county.

San Juan County

San Juan County remains one of the counties hit hardest by the recent recession. Total nonfarm employment year-over growth has been negative in San Juan County since the summer of 2011. San Juan County's total employment for third quarter 2012 fell by 111 jobs, a 2.6 percent year-over-year decline. Recovery has been tough for this corner of the state, but there were some bright patches during the third quarter.

Professional and business services added 37 jobs in the third quarter compared to the same quarter of 2011, representing a 22.8 percent increase. Educational, health and social services also grew by 8.9 percent, or 50 jobs. Construction, accommodation and food services, and retail were some industries that saw the biggest third quarter declines in terms of employment. Government, too, shed 46 jobs.

Construction data from the Bureau of Economic and Business Research at the University of Utah tells the same story. Construction is stalled as dwelling permits are at 4 percent change year-over-year and permit-authorized construction values dropped 4 percent year-over-year. Also, taxable sales data from the most recent Utah State Tax Commission report shows consumer spending is actually up 17.5 percent.

The economic picture in the Southeast Service Area is a mixed picture, including a struggling economy in Carbon and Emery counties, whose coal mining industries have been experiencing setbacks for the last several quarters. Grand County, on the other hand, continues a positive trend during third quarter 2012. Grand County is adding jobs in diverse industries. As far as can be told at this point, construction indicators are good and consumer spending is up. San Juan County, like Castle Country, is struggling to add jobs to the economy.

Construction is strong in Grand County. Permitted dwelling units has increased by 55 percent during 2012. Total permit-authorized construction values are 82 percent higher.

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Initial Claims as an Economic Indicator

BY MELAUNI JENSEN, LMI ANALYST

The Unemployment Insurance Benefits program in Utah is administered by the Department of Workforce Services. This program was started to help safeguard the economy against short-term losses by aiding individuals who have lost their income because of a layoff. Through this program, DWS collects contributions, determines eligibility, takes claims and pays benefits to unemployed workers. When individuals find themselves out of work through no fault of their own or have their hours reduced, they can file what is called an initial claim, allowing them to become eligible for a minimum of 10 weeks and a maximum of 26 weeks of regular benefits. Not all claimants will use the entire time, as they may be able to find a new position with another industry or employer. To be eligible for these benefits, unemployed workers must meet certain criteria as defined by DWS, and an individual will not be eligible if they voluntarily leave their job. If a claimant has been deemed eligible, they will receive an amount based on their earnings over a recent 52-week period. Utah continues to update its UI program, making it easier for both claimants and employers, giving them the option to file and respond online.

When businesses lay off workers it causes the number of initial claims to rise — an indicator of a weakening economy. As the economy recovers and layoffs drop, so do initial claims. Mass layoffs, or establishments having 50 or more initial claims in a five-week period, are usually a contributing factor to a drastic increase, and the Unemployment Insurance program helps identify those layoffs to ensure that workers qualify for UI benefits.

Analysts measure the level of initial claims to provide a leading indicator of labor market conditions in an attempt to gain insightful information about the economy. Initial claims data is released on a weekly basis. Some have questioned whether measuring initial claims in this way is a good indicator. Initial claims can increase when individuals are laid off or when the percentage of individuals who are eligible for, claim and receive UI benefits rises. This can make it more difficult to compare these levels over extended periods of time. Over the latest recession, the UI program expanded and allowed more workers to be eligible for benefits, making analysts take a harder look at those indicators.

In the beginning of 2007, Utah's economy was still thriving with just over 6,300 initial claims for January; but by the start of 2009 that number had risen to over 20,000 claimants. The labor force obviously suffers during recessions, and as we moved further into this latest, roughly 80,000 jobs were taken from Utah's workers, and UI claims continued to rise. In the past three years, initial claims have made a slow but steady descent with a 9,343 monthly average in 2010, just under 8,000 in 2011 and this most recent year behind us with barely over 7,000. In Utah, most economists and analysts agree that these and other indicators will continue to show this downward trend.